

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 NEA-06 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-05 NSAE-00 RSC-01 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 PM-03 H-01 L-02

NSC-05 PA-01 PRS-01 SS-15 USIA-06 STR-01 CEA-01 IO-10

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P 220846Z NOV 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8587

INFO AMEMBASSY DACCA PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: DECLAS 12/31/75

TAGS: EAID, EFIN, BG

SUBJECT: PROPOSED ADB LOAN AND TECHNICAL ASSISTANCE FOR
BANGLADESH SHILPA RIN SANGSTHA PROJECT

SUMMARY: ADB MANAGEMENT PROPOSES \$15 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS RESOURCES TO BANGLADESH FOR RELENDING
TO BANGLADESH SHILPA RIN SANGSTHA (BSRS), AN INDUSTRIAL
DEVELOPMENT FINANCING INSTITUTION. LOAN WILL AUGMENT
BSRS'S FOREX RESOURCES TO MEET MEDIUM AND LONG-TERM
CREDIT REQUIREMENTS OF MEDIUM AND LARGE INDUSTRIES IN
DEVELOPMENT PROJECTS IN BOTH PUBLIC AND PRIVATE SECTORS.
ADB MANAGEMENT ALSO PROPOSES \$370,000 TECHNICAL ASSISTANCE
(TA) GRANT TO BE USED BY BSRS FOR ADVICE AND ASSISTANCE
IN FIELDS OF DEVELOPMENT BANKING, ECONOMIC AND MARKETING
ANALYSIS AND INDUSTRIAL ENGINEERING THROUGH PROVISION
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OF THREE EXPERTS. NAC GUIDANCE IS REQUESTED. END SUMMARY.

1. ADB DOC R112-74 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN AND GRANT POUCHED ADDRESSEES NOV. 19. BOARD CONSIDERATION SCHEDULED DEC. 5.

2. ADB MANAGEMENT PROPOSING \$15 MILLION LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF BANGLADESH TO BE RELENT TO BSRS. PROCEEDS WILL ENABLE BSRS TO PROVIDE LOANS TO PUBLIC AND PRIVATE INDUSTRIAL ENTERPRISES FOR FOREX COST OF DEVELOPMENT PROJECTS. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, 1 PERCENT PER ANNUM SERVICE CHARGE. PEOPLE'S REPUBLIC OF BANGLADESH TO BE BORROWER AND BSRS THE EXECUTING AGENCY. GOVT WILL RELEND TO BSRS AT 10 PERCENT PER ANNUM. BSRS IN TURN WILL RELEND CO SUB-BORROWERS AT 12-1/2 PERCENT PER ANNUM. IT WILL REPAY TO GOVT WITHIN 15 YEARS INCLUDING GRACE PERIOD NOT EXCEEDING 3 YEARS; REPAYMENTS TO BE SYNCHRONIZED WITH REPAYMENTS BY SUB-BORROWERS. ALSO PROPOSED IS GRANT OF \$370,000 TO PROVIDE TA TO BSRS IN DEVELOPMENT BANKING, MARKET ANALYSIS, ECONOMIC EVALUATION OF PROJECTS AND INDUSTRIAL ENGINEERING AND STAFF TRAINING.

3. ALTHOUGH BANGLADESH INDUSTRIAL SECTOR ACCOUNTS FOR ONLY ABOUT 8 PERCENT OF GDP AND 6 PERCENT OF TOTAL EMPLOYMENT, IT CONTRIBUTES OVER 50 PERCENT OF TOTAL EXPORT EARNINGS. JUTE AND COTTON TEXTILES ARE MOST IMPORTANT INDUSTRIES IN TERMS OF VALUE ADDED, EXPORT EARNINGS AND IMPORT SUBSTITUTION AND EMPLOY ABOUT 40 PERCENT OF TOTAL INDUSTRIAL LABOR FORCE.

4. IN 1972, FOLLOWING WAR WITH PAKISTAN, GOVT NATIONALIZED ALL MEDIUM-AND LARGE-SCALE ENTERPRISES AND SET CEILING ON FIXED ASSET VALUE OF NEW PRIVATE SECTOR ENTERPRISES AT ABOUT \$328,000 EQUIVALENT. IN JULY 1974, GOVT RAISED PRIVATE SECTOR FIXED ASSET CEILING TO ABOUT \$3.92 MILLION EQUIVALENT. AT SAME TIME, GOVT GRANTED MORATORIUM ON DEBT REPAYMENTS BY NATIONALIZED JUTE MILLS AND RESCHEDULED LOANS AND IS CONSIDERING DOING SO FOR OTHER NATIONALIZED INDUSTRIES. UNDER FIRST FIVE-YEAR PLAN (FY 1974-FY 1978) NEARLY 20 PERCENT OF EXPENDITURES IS PROJECTED FOR IN-LIMITED OFFICIAL USE

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DUSTRIES TO CONSOLIDATE, MODERNIZE AND ACHIEVE BETTER BALANCE IN MANUFACTURING SECTOR. STRATEGY AIMS AT ENSURING BETTER UTILIZATION OF EXISTING CAPACITY AND CREATION OF NEW CAPACITY ONLY FOR INDUSTRIES SUPPLYING INPUTS FOR AGRICULTURE OR EXPORTS. EMPHASIS IS ON COMPLETION OF ON-GOING PROJECTS AND BALANCING, MODERNIZATION AND REPLACEMENT (BMR) PROJECTS, WHERE RELATIVELY SMALL INVESTMENTS ARE REQUIRED TO OBTAIN INCREASED PRODUCTION

AT LEAST COST.

5. BSRS IS AN INDUSTRIAL DEVELOPMENT FINANCING INSTITUTION FORMED IN OCT. 1972 BY MERGER OF FORMER EAST PAKISTAN OFFICES OF PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORP (PICIC), INVESTMENT CORP OF PAKISTAN (ICP) AND NATIONAL INVESTMENT TRUST (NIT). IT WAS ESTABLISHED TO PROVIDE CREDIT FACILITIES AND OTHER ASSISTANCE TO INDUSTRIAL FIRMS AND TO BROADEN BASE FOR INVESTMENT. AUTHORIZED AND PAID-UP SHARE CAPITAL OF ABOUT \$6.53 MILLION EQUIVALENT IS HELD ENTIRELY BY GOVT. BSRS IS UNDER ADMINISTRATIVE CONTROL ON A MINISTRY OF FINANCE. ALTHOUGH GOVT HAS NOT YET APPOINTED BOARD OF DIRECTORS, IT HAS ASSURED BANK IT WILL DO SO BY 30 APRIL 1975. ABOUT 68 PERCENT OF BSRS'S OUTSTANDING LOANS AND DEBENTURES RELATE TO JUTE INDUSTRY AND 11 PERCENT TO TEXTILE INDUSTRY.

6. AT TIME OF BSRS'S TAKEOVER OF ASSETS AND LIABILITIES OF PICIC, ICP AND NIT OFFICES, NEITHER BSRS NOR GOVT ACKNOWLEDGED AS LIABILITIES FOREIGN DEBTS OF APPROXIMATELY \$77 MILLION PREVIOUSLY CONTRACTED BY PICIC AND DISBURSED FOR PROJECTS IN FORMER EAST PAKISTAN. BSRS ALSO TOOK OVER CERTAIN OTHER LOCAL CURRENCY ASSETS OF THREE INSTITUTIONS (ABOUT \$22 MILLION EQUIVALENT). FUND ACCOUNT WAS SET UP IN BOOKS OF BSRS TO ACCOUNT FOR DIFFERENCE BETWEEN TOTAL ASSETS AND LIABILITIES PENDING FINAL DECISION ON MATTER. ONLY SECOND ELEMENT OF FUND ACCOUNT IS UNENCUMBERED, AS POSSIBILITY EXISTS THAT FOREIGN LIABILITIES IN ACCOUNT MAY SUBSEQUENTLY BE ACCEPTED BY GOVT AS DEBT. ABOUT \$6.4 MILLION EQUIVALENT WAS TRANSFERRED FROM ACCOUNT TO SHARE CAPITAL IN 1973 AND CAN BE CONSIDERED AS COMING FROM UNENCUMBERED PORTION.

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ACTION TRSE-00

INFO OCT-01 EA-06 NEA-06 ISO-00 CIAE-00 PM-03 H-01 INR-05

L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 XMB-02 OPIC-03

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7. IN VIEW ABOVE, THERE IS CONSIDERABLE UNCERTAINTY ABOUT BSRS'S FINANCIAL POSITION. HOWEVER, GOVT MAY TAKE OVER ALL LOANS TO AND LIABILITIES OF NATIONALIZED ENTERPRISES WHILE ALLOWING BSRS TO SERVICE LOANS FOR FEE ON BEHALF OF GOVT. MEANWHILE, GOVT HAS AGREED TO (A) FUND ANY BSRS REPAYMENT OBLIGATIONS FOR MORATORIUM ACCOUNTS; (B) ENSURE REASONABLE INTEREST SPREAD ON MORATORIUM ACCOUNTS; (C) FINANCE ANY PAYMENT RELATING TO FUND ACCOUNT; AND (D) COMPENSATE BSRS FOR ANY LOSS REALIZED ON SHARES OF NATIONALIZED ENTERPRISES. GOVT HAS AGREED TO REVIEW WITH BSRS LATTER'S FINANCIAL POSITION AND LOAN AND EQUITY PORTFOLIO AND MAKE SUITABLE RECOMMENDATIONS, FOLLOWING CONSULTATIONS WITH BANK, CONCERNING STEPS TO PUT IT ON SOUND FINANCIAL BASIS, WITH RECOMMENDATIONS TO BE IMPLEMENTED NOT LATER THAN 30 JUNE 1976. BSRS WILL ALSO ESTABLISH DEBT-EQUITY RATIO OF 5:1 (TREATING FUND ACCOUNT AS DEBT) PRIOR TO EFFECTIVENESS OF PROPOSED LOAN.

8. BSRS HAS LIMITED NUMBER OF EXPERIENCED MANAGEMENT AND QUALIFIED STAFF. (MANAGING DIRECTOR HAS EXTENSIVE BANKING EXPERIENCE AND WORKED IN SENIOR POSITIONS WITH LIMITED OFFICIAL USE

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IDBP/IDBB SINCE 1966, WHILE GENERAL MANAGER HAS HAD LONG EXPERIENCE WITH PICIC.) HOWEVER, THERE IS SHORTAGE OF EXPERTISE IN DEVELOPING BANKING, ECONOMIC AND MARKETING ANALYSIS AND INDUSTRIAL ENGINEERING. PROPOSED TA IS INTENDED TO SUPPLEMENT MANAGEMENT AND IMPROVE QUALITATIVE PERFORMANCE OF STAFF IN ABOVE AREAS.

9. FOREIGN CURRENCY RESOURCES PRESENTLY AVAILABLE TO BSRS ARE ALMOST NON-EXISTENT AS GOVT'S FOREX RESERVES ARE EXTERMELY LIMITED. ON 27 JUNE 1974, BSRS'S FIRST FOREX CREDIT LINE BECAME EFFECTIVE -- ABOUT \$1.3 MILLION INDIAN RUPEE EQUIVALENT FOR WHICH PROCUREMENT IT TIED TO INDIAN MANUFACTURES. (BSRS INDICATES IT WILL SOON APPROACH IBRD AND KFW FOR FUNDS.) BSRS ESTIMATES IT WILL BE ABLE TO COMMIT FOREX LOANS TOTALING \$40.1 MILLION AND DISBURSE \$24.5 MILLION BY END OF FY 1976 AND EXPECTS PROPOSED \$15 MILLION LOAN TO BE UTILIZED WITHIN SHORT

PERIOD. WHILE BANK MISSION CONSIDERS THESE ESTIMATES TO BE OPTIMISTIC, IT BELIEVES LOAN SHOULD BE FULLY COMMITTED WITHIN TWO YEARS AND DISBURSED WITHIN THREE YEARS. (TWELVE PROJECTS HAVE ALREADY BEEN APPROVED BY BSRS AND 40 OTHER PROJECTS ARE AWAITING FOREX ALLOCATIONS BY GOVT OR BSRS, WITH TOTAL FOREX REQUIREMENT OF UP TO \$14.6 MILLION.) SINCE THIS WILL BE BANK'S FIRST LOAN TO BSRS, SUB-LOANS EXCEEDING \$150,000 WILL REQUIRE PRIOR BANK APPROVAL. GOVT HAS AGREED TO PROVIDE, OR CAUSE TO BE PROVIDED, ADEQUATE LOCAL CURRENCY FUNDS TO CARRY OUT BSRS OBLIGATIONS AND FACILITATE ITS OPERATIONS (SIDE LTR NO. 3, PARA 2).

10. BANK'S GUIDELINES ON PROCUREMENT WILL BE FOLLOWED, WITH INTERNATIONAL COMPETITIVE BIDDING ON CONTRACTS OVER \$600,000, INTERNATIONAL SHOPPING BETWEEN \$300,000 AND \$600,000, AND BELOW \$300,000 ON BASIS OF REASONABLE AND COMPETITIVE PRICES. HOWEVER, BANK PROPOSES TO WAIVE INTERNATIONAL COMPETITIVE BIDDING AND INTERNATIONAL SHOPPING REQUIREMENTS, ON A CASE BY CASE BASIS, WHERE BSRS BELIEVES IT ESSENTIAL TO PROCURE EQUIPMENT FOR CERTAIN PUBLIC SECTOR BMR PROJECTS TO MATCH EXISTING EQUIPMENT OF SPECIFIC ENTERPRISES. (SIDE LTR NO. 1, PARA 3). BANK MISSION PRESENTLY TENTATIVELY ESTIMATES SUCH LIMITED OFFICIAL USE

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PROCUREMENT TO AMOUNT TO ABOUT ONE FOURTH OF PROPOSED LOAN AMOUNT.

11. BSRS IS ONE OF TWO MAJOR INDUSTRIAL DEVELOPMENT FINANCING INSTITUTIONS IN BANGLADESH. (THE OTHER, BANGLADESH SHILPA BANK (BSB) RECEIVED TWO BANK LOANS TOTALING \$12.6 MILLION ON 14 JUNE 1973. WHILE UTILIZATION OF THESE LAONS WAS SOMEWHAT SLOW INITIALLY, TO DATE BANK HAS APPROVED DISBURSEMENTS OF \$11.3 MILLION UNDER THESE LAONS.) AS BOTH BSRS AND BSB ARE WHOLLY GOVT-OWNED AND BOTH PROVIDE MEDIUM AND LONG-TERM CREDIT FACILITIES TO PUBLIC AND PRIVATE SECTOR INDUSTRIES, IT IS QUESTIONABLE WHETHER TWO SUCH INSTITUTIONS ARE NOW NECESSARY. IT IS UNFORTUNATE THAT BANK UNABLE PROVIDE TA NOW AND LOAN FUNDS LATER, BUT URGENT DEMAND FOR FOREX RESOURCES PRECLUDES THIS POSSIBILITY.

12. TO USADB'S KNOWLEDGE, THIS WOULD BE FIRST TIME BANK WOULD WAIVE INTERNATIONAL BIDDING AND INTERNATIONAL SHOPPING REQUIREMENTS FOR DEVELOPMENT BANK SUB-LOANS. WAIVERS HAVE ON OCCASION BEEN APPROVED FOR LIMITED AMOUNTS OF REPLACEMENT REQUIREMENTS UNDER PROJECT LAONS. HOWEVER, PRESENT PROPOSAL IS OPEN-ENDED AND COULD PROVIDE UNFORTUNATE PRECEDENT. USADB QUESTIONS WHETHER

SCARCE ADB RESOURCES SHOULD BE USED TO FINANCE
SUBSTANTIAL AMOUNTS OF BMR EQUIPMENT WHERE ICB HAS BEEN
ELIMINATED. FYI: IN THIS PARTICULAR CASE, USADB SUSPECTS
LARGE PORTION OF SUCH SPECIAL PROCUREMENT MIGHT RELATE TO
PROJECTS WHOSE ORIGINAL EQUIPMENT (I.E., JUTE PROCESSING
AND TEXTILE MACHINERY) WAS UK SOURCE. END FYI.

13. USE OF SPECIAL FUNDS RESOURCES AND TA GRANT APPEAR
WARRANTED FOR PROPOSED PROJECT BECAUSE OF PRESENT ECONOMIC
CONDITION OF COUNTRY. IN VIEW UNCERTAINTY ABOUT BSRS
FINANCIAL POSITION, WHILE KEEPING IN MIND VARIOUS ASSURANCES
(PARA 167 OF LOAN DOCUMENT) OF GOVT AND BSRS TO HELP PROTECT
BSRS FINANCIAL POSITION AND PROFITABILITY, USADB BELIEVES
THIS WILL BE DIFFICULT PROJECT REQUIRING SUBSTANTIAL AND
CLOSE BANK SUPERVISION. NAC GUIDANCE IS REQUESTED.

14. REQUEST DACCA COMMENTS FOR NAC AGENCIES, INFO USADB
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MANILA, PURSUANT TO STATE 119796 DTD 3 JULY 1972.
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Message Attributes

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